

**SYSTEM ENERGOPROJEKT BELGRADE**

Consolidated Financial Statements for the  
Year Ended 31 December 2010  
and  
Independent Auditor's Report

**MOORE STEPHENS**  
**REVIZIJA I RAČUNOVODSTVO**

*This is an English translation of the Independent Auditors' Report  
on the Financial Statements originally issued in the Serbian language*

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## **INDEPENDENT AUDITOR'S REPORT**

### **To the shareholders of Energoprojekt Holding a.d. Belgrade Report on the Consolidated Financial Statements**

*We have audited the accompanying consolidated financial statements of Energoprojekt Holding a.d. Belgrade and its subsidiaries disclosed in the Note 2 to the consolidated financial statements (referred to in the further text as the System Energoprojekt or the Group), which comprise the consolidated balance sheet as at 31 December 2010, and the consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.*

#### **Management's Responsibility for the Consolidated Financial Statements**

*Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the current accounting regulations in effect in the Republic of Serbia and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.*

#### **Auditor's Responsibility**

*Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.*

*An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.*

*We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.*

#### **Basis for Qualified Opinion**

*Under the item Receivables in the Consolidated balance sheet the receivable of the subsidiary Energoprojekt Visokogradnja from the Ministry of Foreign Affairs of the Republic of Serbia in the amount of RSD 257,925 thousand was shown, whereby the amount of RSD 18,720 thousand relates to the court decision made by the Commercial Court in Belgrade on 19 May 2009, and RSD 239,205 thousand to the corresponding penalty interest that was included in the consolidated financial income in 2010. As of the audit's date the aforementioned decision was not settled, nor provision was booked, in accordance with the principle of prudence, given that the management believes that the receivable will be collected in a soonest possible time.*

# INDEPENDENT AUDITOR'S REPORT

To the shareholders of Energoprojekt Holding a.d., Belgrade

Report on the Consolidated Financial Statements - continued

## Qualified Opinion

*In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the consolidated financial statements, in all material respects, give a true and fair view of the financial position of the System Energoprojekt Belgrade as at 31 December 2010 and its subsidiaries, its financial performance and its cash flows for the year then ended in accordance with the current accounting regulations in effect in the Republic of Serbia and accounting policies disclosed in the notes to the consolidated financial statements.*

## Emphasis of Matter

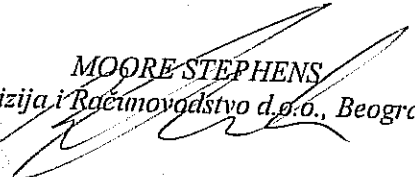
*We draw attention to the following matters:*

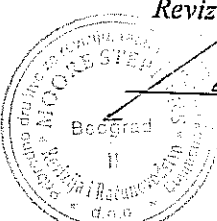
- Under the item Other long-term investments in the Consolidated balance sheet a receivable of the Energoprojekt Visokogradnja from the Preduzeće za izgradnju beogradskog čvora Belgrade was shown, under the court decisions made by the Supreme Court of Cassation in the amount of RSD 266,011 thousand, and under the item Receivables (ADP - 016 Consolidated balance sheet) the amount of RSD 970,037 thousand according to the protocol from 17 February 2011 made between JP Železnice Srbije and Preduzeće za izgradnju železničkog čvora doo Belgrade and Energoprojekt Holding ad Belgrade. The total recognized debt in this regards amounts to RSD 1,221,819 thousand. Of this amount the Government of Serbia took RSD 611,811 thousand, which was paid off to the Energoprojekt Holding until the completion of the audit of the financial statements, while the remaining debt of RSD 610,008 thousand should be, by order of the Government of Serbia, paid off by the PU Železnice Srbije in 14 monthly installments starting from March 2011. Pursuant to the aforementioned Protocol, in 2010 on behalf of valuation adjustments of receivables, the provision was abolished in favor of Other revenue for period in Consolidated income statement in the amount of RSD 266,011 thousand.
- Under the item Other incomes in Consolidated income statement for 2009 the Group showed a profit originated from bungling purchase at the acquisition date of the Energo Management Group doo, Belgrade (as the difference between the lower price of acquisition and the higher real value of net assets acquired in accordance IFRS 3 -Business Combinations) in the amount of RSD 204,977 thousand. Independent evaluation of the fair value of net assets acquired conducted in 2010, determined the amount of RSD 116,552 thousand, or less by RSD 88,425 thousand, for which the net value of assets evaluated and Profit from previous years in Consolidated balance sheet were reduced, whereby a net profit of the acquired company for a period from the acquisition date to the registration date amounted to RSD 28,105 thousand and disclosed under the item Financial income in the Consolidated income statement.

*Our opinion is not qualified in respect of these matters.*

Belgrade, 6 May 2011

MOORE STEPHENS  
Revizija i Računovodstvo d.o.o., Beograd

  
Bogoljub Aleksić  
Certified Auditor



## CONSOLIDATED INCOME STATEMENT

For the Period from 01 January to 31 December 2010

(In RSD thousand)

	Notes	2010	2009
<b>Operating revenues and expenses</b>			
<b>Operating incomes</b>		<b>20,234,478</b>	<b>21,588,101</b>
Sales	8	24,198,178	20,007,949
Income from undertaking of outputs and goods for own purposes		37,589	36,998
Increase of inventories	9	693,282	2,440,586
Decrease in inventories	9	4,884,400	1,110,706
Other operating incomes	10	189,829	213,274
<b>Operating expenses</b>		<b>19,641,614</b>	<b>20,484,727</b>
Purchase value of goods sold	11	203,512	188,840
Cost of material	12	5,297,782	5,238,724
Staff costs	13	5,997,996	5,841,456
Costs of depreciation and provisions	14	802,299	1,102,740
Other operating expenses	15	7,340,025	8,112,967
<b>Profit from operations</b>		<b>592,864</b>	<b>1,103,374</b>
<b>Financial revenues</b>	16	<b>2,670,287</b>	<b>1,813,320</b>
<b>Financial expenses</b>	16	<b>2,346,352</b>	<b>2,137,177</b>
<b>Other revenues</b>	17	<b>662,526</b>	<b>1,124,699</b>
<b>Other expenses</b>	17	<b>684,481</b>	<b>739,649</b>
<b>Profit from ordinary activities before taxation</b>		<b>894,844</b>	<b>1,164,567</b>
Net loss of discontinued operations	18	2,884	379
<b>Profit before tax</b>		<b>891,960</b>	<b>1,164,188</b>
<b>Income tax</b>			
Income tax expense for the period		145,048	92,534
Deferred income tax expense for the period			2,716
Deferred income tax revenue for the period		1,845	
<b>Net profit</b>		<b>748,757</b>	<b>1,068,938</b>
<b>Net profit attributable to minority interest</b>		<b>105,136</b>	<b>200,922</b>
<b>Net profit attributable to equity holders of the parent</b>		<b>643,621</b>	<b>868,016</b>

**CONSOLIDATED BALANCE SHEET**

As of 31 December 2010

(In RSD thousand)

	Notes	2010	2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets		8,872,679	7,973,821
Property, plant and equipment		90,806	94,057
Investment property	20	6,340,811	6,004,128
Equity investments	20	451,443	189,186
Other long term financial investments	21	643,424	778,866
	22	1,346,195	907,584
<b>Current assets</b>			
Inventories		16,460,454	18,023,578
Non-current assets held for sale and discontinued operations	23	4,144,498	7,077,182
Short term receivables, investments and cash		8,942	8,942
Receivables		12,307,014	10,937,454
Receivables for prepaid income tax	24	6,553,506	5,233,076
Short term financial investments		110,120	137,570
Cash equivalents and cash	25	1,987,170	1,185,091
VAT and prepayments and accrued income	26	2,877,078	2,969,494
	27	779,140	1,412,223
Deferred tax assets			13,383
<b>TOTAL ASSETS</b>		<b>25,333,133</b>	<b>26,010,782</b>
<b>Off-balance sheet items</b>			
	40	8,006,030	13,816,859

**CONSOLIDATED BALANCE SHEET - continued**  
**As of 31 December 2010**  
(In RSD thousand)

<b>EQUITY AND LIABILITIES</b>	<b>Notes</b>	<b>2010</b>	<b>2009</b>
<b>Capital</b>			
Issued and other capital	28	10,201,589	9,242,189
Reserves	29	4,566,356	4,066,317
Revaluation reserves	30	578,431	532,332
Unrealised gains on AFS securities	30	958,158	869,133
Unrealised losses on AFS securities	30	60,049	67,646
Undistributed profit	31	19,865	17,626
Redeemed own shares		4,058,801	3,728,305
		341	3,918
<b>Provisions and liabilities</b>			
Long term provisions	32	15,106,502	16,708,158
Long term liabilities		867,380	932,350
Long term loans	33	2,039,114	1,736,062
Other	34	1,611,397	1,595,549
Short term financial liabilities	35	427,717	140,513
Liabilities from business operations	36	3,176,582	2,249,532
Other short term liabilities	37	6,711,561	9,643,544
VAT duties, other public liabilities and accruals and deferred income	38	817,519	787,456
Income tax liabilities		1,494,346	1,316,774
			42,440
Deferred tax liability		25,042	60,435
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>25,333,133</b>	<b>26,010,782</b>
Off-balance sheet items	40	8,006,030	13,816,859
Minority interest (in equity)		1,081,234	1,000,533

**CONSOLIDATED CASH FLOW STATEMENT**  
**For the Period from 01 January to 31 December 2010**  
(In RSD thousand)

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Inflows</b>		
Selling and cash receipts from customers	21,676,694	22,300,666
Interest receipts from operations	21,330,801	21,989,905
Other receipts from operations	61,926	79,061
	283,967	231,700
<b>Outflows</b>		
Cash paid to suppliers and paid advances	22,700,646	21,457,439
Staff costs	14,658,334	14,542,816
Interest paid	6,614,675	5,477,383
Income taxes paid	283,396	296,135
Other public duties	213,183	227,840
	931,058	913,265
<i>Net cash provided by operating activities</i>		843,227
<i>Net cash used in operating activities</i>	1,023,952	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>Inflows</b>		
Net proceeds from disposal of shares and stakes	2,602,035	340,287
Proceeds from sale of intangible assets, property, plants, equipment and biological assets	4,216	41,860
Other financial investments (net inflows)	54,363	24,418
Interest received	2,449,846	195,177
Dividend received	54,102	75,197
	39,508	3,635
<b>Outflows</b>		
Purchase of shares and stakes (net outflows)	2,789,256	847,617
Purchase of intangible assets, property, plants, equipment and biological assets	1,329	2,230
Net outflow from other financial investments	314,203	692,494
	2,468,724	152,893
<i>Net cash provided by investing activities</i>		
<i>Net cash used in investing activities</i>	182,221	507,330



**CONSOLIDATED CASH FLOW STATEMENT – continued**  
**For the Period from 01 January to 31 December 2010**  
(In RSD thousand)

	2010	2009
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>Inflows</b>		
Proceeds from issuance of capital	1,754,618	1,092,997
Net proceeds from long term and short term loans		8,612
Other long and short term liabilities	1,302,684	749,998
	451,934	334,387
<b>Outflows</b>	827,059	1,350,116
Outflow from the purchase of own shares and stakes		4,954
Net outflow from long and short term loans and other liabilities	712,764	1,191,007
Payment of finance lease liabilities	95,528	57,957
Dividends paid	18,767	96,198
<i>Net cash provided by financing activities</i>	927,559	
<i>Net cash used in financing activities</i>		257,119
<b>Total increase in cash</b>	26,033,347	23,733,950
<b>Total decrease in cash</b>	26,311,961	23,655,172
<b>Net increase in cash</b>		78,778
<b>Net decrease in cash</b>	278,614	
<b>Cash at beginning of period</b>	2,969,494	3,085,355
<b>Gains on exchange</b>	645,648	384,203
<b>Losses on exchange</b>	459,450	578,842
<b>Cash at end of period</b>	2,877,078	2,969,494

**STATEMENT OF CHANGES IN EQUITY**  
**for the period from 01 January to the 31 December 2010**  
(In RSD thousand)

	Share capital	Other capital	Premium on issue of shares	Reserves	Revaluation reserves	Unrealised gains on AFS securities	Unrealised losses on AFS securities	Undistributed profit	Redemption of own shares	Total
<b>Balance as of 1 January 2009</b>	<b>3,563,641</b>	<b>101,320</b>	<b>228,504</b>	<b>257,951</b>	<b>929,183</b>	<b>61,565</b>	<b>11,751</b>	<b>2,950,639</b>	<b>3,427</b>	<b>8,077,625</b>
Restated opening balance as of 1 January 2009	3,563,641	101,320	228,504	257,951	929,183	61,565	11,751	2,950,639	3,427	8,077,625
Prior years increase - total	461,479	11	5,736	44,606	53,161	13,882	9,258	1,781,362	4,647	2,346,332
Prior years decrease - total	57,758	2,376	1,679	2,786	113,211	7,801	3,383	1,003,696	4,156	1,181,768
<b>Balance as of 31 December 2009</b>	<b>3,967,362</b>	<b>98,955</b>	<b>232,561</b>	<b>299,771</b>	<b>869,133</b>	<b>67,646</b>	<b>17,626</b>	<b>3,728,305</b>	<b>3,918</b>	<b>9,242,189</b>
Restated opening balance as of 1 January 2010	3,967,362	98,955	232,561	299,771	869,133	67,646	17,626	3,728,305	3,918	9,242,189
Current year increase - total	517,245	15,335	4,115	43,769	115,013	7,597	8,555	972,167	31	1,659,058
Current year decrease - total	16,908	15,633	69	1,716	25,988	60,049	6,316	641,671	3,608	699,658
<b>Balance as of 31 December 2010</b>	<b>4,467,699</b>	<b>98,657</b>	<b>236,607</b>	<b>341,824</b>	<b>958,158</b>	<b>60,049</b>	<b>19,865</b>	<b>4,058,801</b>	<b>341</b>	<b>10,201,589</b>

## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

#### 1. GENERAL INFORMATION

System Eneroprojekt, Beograd (the System) consist of parent share company Energoprojekt Holding, a.d., Beograd (EP Holding) and 11 subsidiaries 10 of them are direct subsidiaries (9 share companies and 1 limited liability companies) and 1 subsidiary indirectly associated through other subsidiaries (1 limited liability company) as well as 1 associates (1 limited liability) with participation in capital 50%. Within parent company and subsidiaries there are working unites and legal entities domestic and abroad organized which together are engaged in building projecting, equipping, research, programming the investing units and systems and trade.

In 2010 the System was organized as follows:

Activity	Number of subsidiaries	Number of units for performing investing works abroad	Number of companies abroad
Projecting and researching	4	20	6
Construction and equipping	3	50	7
Trade	1	-	-
Holding	1	-	-
Other	4	-	8
<b>Total</b>	<b>13</b>	<b>70</b>	<b>22</b>

The parent company's and subsidiaries head office is situated in New Belgrade, Bulevar Mihajla Pipina No 12.

As of 31 December 2010 Energoprojekt had 2.589 employees (2009: 2.683), excluding local staff abroad.

The "Energoprojekt Holding" a.d. shares are listed on the Belgrade Stock Exchange – list "A" and certain number of subsidiaries' shares are on unregulated market of Belgrade Stock Exchange.

## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

#### 2. CONSOLIDATION GROUP

The consolidation group consists of parent company EP Holding and below shown local subsidiaries and associates, as well as subsidiaries - working units abroad:

No..	Name	% ownership
<b>Construction and equipping</b>		
1.	EP Visokogradnja a.d.	92.39
2.	EP Niskogradnja a.d.	93.32
3.	EP Oprema a.d.	67.87
<b>Projecting and researching</b>		
4.	EP Urbanizam i arhitektura a.d.	94.40
5.	EP Industrija a.d.	62.77
6.	EP Entel a.d.	86.26
7.	EP Hidroinženjering a.d.	94.84
<b>Other</b>		
8.	EP Energodata a.d.	96.43
9.	EP Promet d.o.o.	100.00
10.	EP Garant a.d.o.	64.13
11.	Energoplast d.o.o.	60.00
<b>Associates</b>		
12.	Enjub d.o.o.	50.00

The subsidiaries under number 1 to 8 are the parent companies themselves and prepared it's own consolidated financial statements.

Pursuant to the Assembly's Decisions made by the subsidiary companies participants, in a status of the merger as of 31.08.2010 the service ended - merger of companies Energo Management Group and EP Oprema where the company Energo Management Group ceased to exist without the implementation of the liquidation, while the EP Oprema ad company continues to exist with the enforcement of the capital increase.

#### Subsidiaries abroad – working units:

No.	Name	% ownership
1.	Zecco LTD, Zambia	100.00
2.	Energogvineja, Guinea	100.00
3.	INEC Engineering Co.Ltd., London, Great Britain	100.00
4.	Energoprojekt Middle East(L.L.C.) Dubai, UAE	100.00
5.	ENCOM GmbH, Frankfurt, Germany	100.00
6.	Energoprojekt (M) Sdn. Bhd., Malaysia	100.00
7.	Nana off Shore, Lebanon	100.00
8.	Energoprojekt Montenegro d.o.o., Herceg Novi, Montenegro	100.00

The part of subsidiaries abroad (Energoprojekt Middle East(L.L.C.) Dubai, UAE, Energoprojekt (M) Sdn. Bhd., Malaysia, Energogvineja, Guinea and Zecco LTD Zambia) is established as EP Holding's ownership but they are coordinated and managed by subsidiaries.

## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

Apart from these working units abroad, in the consolidation group in the first instance consolidation are involved and Energo Private Limited, Harare, Zimbabwe; EP Ghana-Ghana; Energo Uganda, Uganda, Peru Enlisa; ECOMEP-Dubai; Energo Nigeria - Nigeria; Zahinos-Cyprus; Enhisa Peru SA, EP Entel Oman, Energoprojekt Entel Qatar, Energo consult Abu Dhabi UAE, United Consulting Botswana and Energodata Montenegro Montenegro.

Through the first instance involved the consolidation of two local affiliates of society and to Energoplast Energopet doo doo and, provided that the consolidated financial statements through the system eliminated the inclusion Energoplast doo method of participation and on the method of full consolidation, as it is entered in the group as a dependent society that is above.

Starting from January 1, 2004 operating activities of entities abroad is included in individual financial statements and detailed schedule of the entities abroad was given in the related separate consolidated financial statements.

### 3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Financial statements on which we are reporting, are prepared in accordance with the Law on Accounting and Auditing and relevant national regulations in force, applying accounting policies set out in Note 6 of this Report.

Consolidated financial statements of the System are prepared in the form prescribed by the Act of the scope and form financial statements for entities, other legal entities and businessman ("Official Gazette RS" no. 114/06 and 119/08).

#### 3.1. Functional and reporting currency

The figures in the consolidated financial statements are prepared in thousand of RSD. The RSD represents functional and presentation (reporting currency) of the companies within System. All transactions made in the currencies which are not functional are treated as the transactions in the foreign currencies.

The financial statements are prepared for the year ended at 31 December 2010 in the thousands RSD.

Comparative data are disclosed into thousand of RSD ruling at the balance sheet date as of 31 December 2009.

The official exchange rates for main currencies prescribed by the NBS, used in the translation of monetary assets and liabilities denominated in foreign currencies into RSD, were as follows:

	31.12.2010	31.12.2009
EUR	105.4982	95.8888
USD	79.2802	66.7285

Applied average annually exchange rates for the figures disclosed in the Income statement for the year 2010 were as follows:

	31.12.2010	31.12.2009
EUR	103.0431	93.95
USD	77.9066	67.46

## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

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#### 4. MANAGEMENT ESTIMATIONS AND JUDGEMENTS

Preparation of the consolidated financial statements (prepared in accordance with IAS/IFRS) requires that the management performs estimation, ponderation and assumption reflecting on the reporting figures of assets, liabilities, revenues and expenses. Obtained result may differ from estimated.

#### 5. CONSOLIDATION

##### 5.1. Subsidiaries

Subsidiaries are the enterprises that are directly or indirectly controlled by the EP Holding of more than 50% of the ownership or voting power. The method used to account for subsidiaries is fully consolidation. Intra group balances and intra group transactions are eliminated in full. Minority interest is presented separately.

##### 5.2. Associates

Associates are the enterprises in which the Group has significant influence or holds between 20% to 50 % of the voting power. Associates are accounted for in consolidated financial statements under equity method. Under the equity method, the investment is initially recorded at cost and the carrying amount is increased or decreased to recognize the investors share of the profits or losses of the investee after the date of acquisition. If investors share of losses of the associate equals or exceeds the carrying amount of the investment, the investor discontinues including its share of further losses. The investment is reported at nil value, and only if there is a very irrevocable contractual obligation to cover the loss of a larger difference in relation to the loss of capital is recognized as expense in the parent company.

##### 5.3. Joint Ventures

In its consolidated financial statements, venturer report (*Joint Venture*) its interest in a jointly controlled entity using proportionate consolidation. The application of proportionate consolidation means that the consolidated balance sheet of venturer includes its share of the assets and liabilities that it controls. The consolidated income statement of the venturer includes its share of the income and expenses of the jointly controlled entity.

Detailed list of subsidiaries, associates and joint companies, which with the parent company EP Holding represent the consolidation group of System Energoprojekt is given in Note 2

##### 5.4. Segment reporting

A business segment is a distinguishable component of an entity that is engaged in providing an individual product or service that is subject to risks and returns that are different from those of other business segments.

A geographical segment is a distinguishable component of an entity that is engaged in providing a product or services within a particular economic environment and that is subject to risk and returns that are different from those of components operating in the other economic environments.

## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

#### 6. PRINCIPAL ACCOUNTING POLICIES

From 2004 the System Energoprojekt adopted unique accounting policy and the subsidiaries have an obligation to quantify and eliminate those differences if they are material significant in a process of preparation consolidated financial statements. The accounting policies were changed in 2006 in accordance with the new Law on Accounting and Auditing.

The significant accounting policies are shown below:

##### (a) Principles of valuation – basic assumption

The financial statements are prepared on the accrual basis of accounting and going concern.

Under this basis, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid). Financial statements prepared on the accrual basis (except Cash flow statement) inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future.

The financial statements are prepared on the assumption that a System is a going concern and will continue in operation for the foreseeable future.

##### (b) Recognition of the elements of financial statements

As asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the assets has a cost or value that can be measured reliably.

A liability is recognised in the balance sheet when it is probable that outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.

Income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. This means, in effect, that recognition of income occurs simultaneously with the recognition of increases in assets or decreases in liabilities.

Expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets.

Under a financial concept of capital, such as invested money or invested purchasing power, capital is synonymous with the equity of the company. The concept of capital is shown in the financial capital maintenance. Financial capital maintenance is measured into nominal monetary items-RSD. Under this concept a profit is earned only if the financial (or money) amount of the net assets at the end of period exceed the financial (or money) amount of net assets at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period.

## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

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#### (c) Profits/losses on translation of foreign currencies

Cash, receivables and liabilities in foreign currencies are translated into RSD at the official rate of exchange ruling as of the date of financial statements. Gains and losses arising on that issue are treated as revenues/expenses of the period.

#### (d) Revenue from the sale

Revenues from sale is defined on the accrual basis and realised till the end of accounting period, considering debt-credit relation when it occur and issued invoice. Revenues are measured at the fair value of the consideration received or receivables taking into account the amount of any trade discount and volume rebates allowed by the System. The difference between the fair value and the nominal amount is recognised as interest revenue.

Revenue from the sale shall be recognised when all the following conditions have been satisfied:

- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenues from rendering of services are recognised by reference to the stage of completion of the transaction at the balance sheet date.

Revenues from the fixed price Construction Contract are recognized by the method of percentage of completion, contractual activities at the balance sheet date. Percentage of completion the contract is calculated by the proportion between reinforcement expenses for performed work until the given date in accordance with last estimated total contractual expenses (IAS 11).

#### (e) Operating expenses

Operating expenses comprise of costs of purchase, material used, gross salaries and compensations for salaries, depreciation and provisions, producing costs and non material costs.

- Expenses are recognised and stated when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably;
- expenses are recognised on the basis of a direct association between the costs incurred and the earnings (going concern);
- when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined, expenses are recognised on the basis of systematic and rational allocation procedure;
- expenses are recognised immediately when an expenditure produces no future economic benefits or when future economic benefits do not qualify, or cease to qualify, for recognition in the balance sheet as asset;
- expenses are also recognised in those cases when a liability is incurred without the recognition of an asset (as when a liability under a product warranty arises).



## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

#### **(f) Gains and losses**

Gains represent increases in economic benefits, include those arising on sale of fixed assets for price higher than net book value, unrealized gains arising on the sale of securities (when securities measured by their market price) and those resulting from increases in the net book value of fixed assets because of stopping circumstances causing their decreasing.

Losses arising on the sale of assets by prices lower than book value, those arising on the disposal of non write off fixed assets, damages which can be refunded in whole or separately from insurances and by applying principle of decrease in assets value.

#### **(g) Financial revenues and expenses**

Financial revenues and expenses include revenue and expenses from interest, gains and losses from exchange and others financial revenues and expenses.

Revenues from dividends are recognized as income in the year when they are approved for payment.

#### **(h) Income tax**

Income tax represents the amount that is calculated in accordance with Serbian Republic Law. Tax obligation is calculated at 10.00% on income represented in the tax balance (2009 – 10%). The taxable income represents gross income in the income statement less some revenue and expenditure according to the tax regulations. Calculated tax is deducted for tax deductions (investments in fixed assets in own registered activity and other tax relieves in accordance with tax regulations for which the Company meets requirements).

Income tax of the subsidiaries abroad is calculated in accordance with regulations forced in the countries as regards.

#### **(i) Deferred income tax**

Deferred income tax is reserved entirely, applied liability method, for temporary differences arising from tax base and accounting amounts disclosed in the consolidated financial statements. The amount of deferred income tax is determined by the legal rates in effect.

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of: deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits. It is allowed to offset deferred tax assets and liabilities.

#### **(k) Employee benefits**

##### **/i/ Pension insurance and employee benefits**

The Companies within System pay in the name of its employees duties to the Pension Fund of the Republic of Serbia. All employees are the members of aforementioned pension fund. All contributions arising from the aforementioned obligation are recognised as the expense and the liability in the transaction moment.

## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

The companies within the System do not have its own pension funds or post-employment plan relating to the leaving and hence there are no pension duties as well.

#### */ii/ Health insurance*

The companies within System pay health insurance contributions which are recognised in the calculation moment as the expense and liabilities.

#### */iii/ Retirement benefits*

The companies within System pay to employees retirement benefits in the amount of triple salary obtained in the month before retirement month (defined by the Employee contract).

#### */iiii/ Post-employment benefits*

The post-employment benefit is payable when the employee leaves the company before the ordinary pension, or when the director and employee make a contract on cutting the work in the replacement for retirement benefits, whereby the management body make a decision.

#### **(j) Intangible assets, property, plant, equipment and investment property**

Intangible assets are identifiable non monetary assets without physical substance and represent the resources of the enterprise if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise.

Intangible assets comprise of: goodwill, licenses, concession, trademarks, computer software, franchises, design and implementation of new processes or systems, marketing rights, investment in other properties, equipment and plant.

Property, plant and equipment are tangible assets that:

- are held by a company for use in the production or supply of goods or services, for rental to others, or for administrative purpose;
- are expected to be used during more than one period;

The cost of an item of property, plant and equipment is recognised as an asset if, and only if:

- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

An item of intangible assets, property, plant and equipment are initially measured at its cost. The purchase price is invoiced value of asset and any directly attributable costs of bringing the asset to working condition for its intended use. Cost price of aforementioned assets produced in the own production comprises of direct costs and indirect ones relating to this investment.

The purchase cost or price cost includes borrowing costs which may be indirectly added to the purchase, construction or production the asset available for use in accordance with IAS/IFRS.

## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

Subsequent expenses relating to an item of intangible asset, property, plant and equipment that has already been recognized is added to the carrying amount if the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the company. Subsequent expenses are treated as subsequent investment if:

- modification of an item of plant to extend its useful life, including an increase in its capacity;
- upgrading machine parts to achieve a substantial improvement in the quality of output; and
- adoption of new production process enabling a substantial reduction in previously assessed operating costs.

As such other subsequent expenses (maintenance costs, technical costs, small reparation and other) usually recognised as an expense when incurred.

After initial recognition as an property, plant and equipment is carried at its purchase cost or cost less any accumulated depreciation and any accumulated impairment losses.

An item of intangible asset, property, plant and equipment is eliminated from the balance sheet on disposal or when the asset is permanently withdraw from use and no future economic benefits are expected from its disposal.

Gains or losses arising from retirement or disposal is determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and recognized as income or expense in the statement of income.

**Investment property** is property (land or a building – or part of a building – or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purpose or sale in the ordinary course of business. In this regards, investment property makes cash flows mostly independent from other assets held by the Company.

An investment property should be measured initially at its cost. Transaction costs are included in the initial measurement.

Subsequent expenditure relating to an investment property that has already been recognized is added to the carrying amount of the investments property when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing investment property will flow to the enterprise. All other subsequent expenditure is recognized as an expense in the period in which it is incurred.

After initial recognition the investment property is measured by their fair value. Fair value is usually its market value. Fair value is measured as the most probable price reasonably obtainable in the market at the balance sheet date in keeping with the fair value definition. It is the best price reasonably obtainable by the seller.

A gain or loss arising from a change in the fair value of investment property is included in net profit or loss for the period in which it arises.

## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

#### (I) Depreciation

Depreciation base presents acquisition cost after determination of residual and retirement amount.

The residual value of an intangible asset is assumed to be zero unless:

- there is a commitment by a third party to purchase the asset at the end of its useful life;
- there is an active market for the asset and residual value can be determined by reference to that market and it is probable that such a market will exist at the end of the asset's useful life.

For the financial statements preparation purpose intangible assets are disposed by the proportional method of amortization in a period of five years, unless it is determined by the contract different one.

Amortization of the goodwill is not done but it is an obligation to perform test for it impairment in accordance with IAS. Depreciation of the intangible assets with no expiry date is not done.

Depreciation of the intangible assets is starting from the beginning of further month compared to month when it is put in use.

For the purposes of compiling tax the balance depreciation of intangible assets is done according to applicable regulations.

Internal arising goodwill is not recognised as intangible assets.

After initial recognition property, plant and equipment are stated by their acquisition cost or cost deducted for total amount of calculated depreciation and total loss due to impairment.

Depreciation base for property, plant and equipment presents acquisition cost or cost after determination of residual and retirement amount.

The depreciation is calculated by the straight line method applying rates determined by estimated useful life.

For the purpose of the financial reporting the depreciation is calculated by the straight line method applying rates determined by estimated useful life. If expectations are significantly different from previous estimates, the depreciation charge for the current and future periods are adjusted for current and next periods.

For the purpose of preparation tax balance property, plant and equipment are allocated and depreciated by rates in accordance with relevant national regulations as regards for preparation tax returns needs.

The depreciation rates determined by useful life are:

	(%)
Buildings	1.3-15
Plants	5-25
Computers and accessories	20
Vehicle	12.5-16
Intangible asset	20

## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

#### **(m) Financial investments**

Financial investments represent financial assets initially measured at its cost, which is fair value of the consideration given for it. Transaction costs are included in the initial measurement of all financial assets.

For the purpose of measuring a financial asset subsequent to initial recognition financial assets are classified into four categories:

- a) financial assets held for trading, initially recognised at its fair value through profit or loss;
- b) held-to-maturity investments;
- c) loans and receivables originated by the company and not held for trading;
- d) available-for-sale financial assets.

Financial asset is classified as available for sale financial asset is one that does not belong to some of those three categories above-mentioned.

Financial asset is classified as hold to maturity, if this asset is part of portfolio of similar assets for which the trading model exists in order to obtain profit from short-term changes in price or dealer merges.

After initial recognition, the company measured financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets:

- loans and receivables, and investments held-to-maturity measured at amortised cost using the effective interest method;
- investment in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and it is measured at cost.

There is no adequate market stability, experience and liquidity in Republic of Serbia in a process of financial assets trading and official market information are not available. Therefore it is not possible to measure the fair value as required by IFRS.

A recognised gain or loss arising from a change in the fair value of financial asset or financial liability that is not part of a hedging relationship, initially recognised at fair value through the profit or loss, now is recognised profit or loss in the income statement and for financial asset available for sale in the revaluation reserves.

#### **(n) Inventories**

**Inventories of goods** are measured at their cost value. The cost of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the company from the taxing authorities), and transport handling and other costs directly attributable to the cost of purchase. Trade discounts, rebates and other similar items are deducted in determining the cost of purchase.

Subtraction of inventories of goods is assigned by using the weighted average cost formula

**Inventories of material** are purchased from the suppliers and measured by the purchase cost, and the material which is produced as the own output measure by the price cost, net sell cost if it is lower.

## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the company from the taxing authorities), and transport, handling and other costs directly attributable to the cost of purchase. Trade discounts, rebates and other similar items are deducted in determining the cost of purchase.

Subtraction of inventories of material is assigned by using the weighted average cost formula.

**Inventories of work in progress and finished goods** arose as a result of production process. These inventories are measured at the lower of cost and net realizable value.

The cost of conversion of inventories include costs directly related to the units of production (such as direct material and direct labor). They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods.

The cost of conversion does not include costs of management, sale and marketing.

Borrowing costs are included in the cost of inventories.

#### **(o) Short term receivables and investments**

Short term receivables comprise trade receivables from domestic and foreign buyers in the moment of sold products and performed services.

Short term investments refer to loans, securities and other short term investments with maturity date of one year from due date (balance sheet date).

Short term trade receivables are measured by the cost stated in issued invoice. If the cost on the invoice is stated in the foreign currency, translation in reporting currency is done applying average exchange rate ruling on the date of transaction. Changes in exchange rate from the date of transaction to the collection date are stated as gains and losses from exchange booked in the favor of revenues or against expenses. Receivables stated in the foreign currency as at the balance sheet date are translated by the ruling exchange rate and gains and losses arose are booked as revenue or expense for period.

Short term financial investments held for trading are measured by cumulated depreciation, non considering tendency of the company to hold them to maturity.

If there is a possibility that the Company will not be in position to collect all due amounts (principal and interests added) in accordance with contract conditions for issued loans, receivables or investments held to maturity, stated by cumulated depreciation, loss appears caused by disposals or uncollectible receivables.

Disposal of short term receivables and investments with uncertain collection is done by indirect write off, and in cases when uncollectible is certain and supported by documents disposal is done by direct write off.

## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

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Possibility of collection receivables are determined in each of the cases in accordance with relevant supporting documentation (bankruptcy, liquidation, over debt, disposal, forced settlement, out-of-court settlement, obsolescence, court decision, board of director act, as well as other cases with appropriate documentation).

#### **(p) Cash and cash equivalents**

Cash and cash equivalents comprises of: petty cash, demands deposits with banks, other short term highly liquidity investments which may be transferred in the known cash that are not under the influence of significant risk of value changes and bank overdrafts. Bank overdrafts are included in the Balance sheet as the figure liabilities for loans – under item current liabilities as short term financial liabilities.

#### **(r) Rentals**

Rentals, in which lesser keeps significant part of risk and ownership profit, are classified as the business rentals. Payments made from business rentals are charged against income statement on the proportional base during the rental period.

#### **(s) Finance lease liabilities**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Title may or may not eventually be transferred.

The liability for finance lease is stated at the balance sheet date deducted for the interest comprising in the lease (net value of minimum lease repayment). The interest is allocated to the accounting periods in lease period and in accordance with the repayment schedule.

Finance lease liabilities are charged against accruals – liabilities for non-due interests re, repayment schedule.

#### **(t) Commitment and contingencies**

Contingent liability is disclosed, but not recognized, only by the occurrence or non-occurrence of one or more uncertain future events and when it is provision recognized in the financial statements.

A contingent asset is not disclosed only if, by the occurrence or non-occurrence of one or more uncertain future events. If the inflow is certain it can be recognized in the financial statement.

#### **(u) Borrowing costs**

Borrowing costs include interests, charges and other costs arose in the company as relate in accordance with IAS/IFRS.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset.

Borrowing costs are recognized as expenses in the period in which they are incurred.

## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

#### **(v) Impairment**

If asset is disposed during the year the managing board of the company, based on the suggestion made by the director, determined the indicators caused the disposal which are relevant to those required by the IAS, as well as, indicators which are indicated if the previously recognized disposal is decreased.

If those indicators exist Board of Director, brought a decision on the impairment amount or the amount previously impaired which has to be cancelled.

At the end of year Board of Director, based on Managing Director/director of the company and inventory commission suggestion, brought a decision on the impairment assets or the amount previously impaired which has to be cancelled.

#### **(w) Financial liabilities**

Financial liabilities comprise long term liabilities (long term loans, liabilities from long term securities and other), short term financial liabilities (short term loans and other), short term financial liabilities (short term loans and other), short term liabilities from operating activities (suppliers and other) and other short term liabilities.

Short term liabilities represent those due in one year from the maturity date, respectively from the balance sheet date.

Long term liabilities represent those due over one year from the preparation of the financial statements date.

Portion of long term liabilities due in period up to one year from the preparation of the financial statements date are disclosed as the short term liabilities.

Financial liabilities are recognized initially by their purchase cost which represent their fair price paid for them. Transaction charges are included in the beginning measurement of all financial assets.

Decreasing of the liabilities as regards to the law, out-of-court settlement are done by the direct write off.

#### **(x) Long term provisions**

A provision is recognized when, only when:

1. Enterprise has a present obligation (legal or constructive) as a result of a past event;
2. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
3. A reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision is recognized.

Long term provision comprises of Provisions for costs during the warranty period, Provisions for recovery of natural resources, Provisions for retained deposits and caution money, Provisions for restructuring costs, Provisions for fees and other employee benefits and Other long term provisions for liabilities covering (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic



## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

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benefits will be required to settle the obligation (legal proceedings under processing) and provision booked for issued guaranties.

Long term provision for expenses and risks are trucked by sorts and their reduction, i.e. cancellation is done in the favour of revenues.

Provisions are not recognized for future operational losses.

Provisions are distinguished from other liabilities because there is uncertainty about the timing or amount of the future expenditure required in settlement.

The amount recognized as a provision is the estimate of the expenditure expected to be required to settle the obligation.

Provisions are reviewed at each balance sheet and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Managing Board is in charge of making decision about a provision.

#### **(y) Changes in accounting policies and correction of fundamental errors**

Correction of the additionally determined material significant errors is one influence on the financial statements relating to one or several prior accounting periods whereby those financial statements may not be considered as reliable at the date of their issuing.

Correction of the prior years material significant errors is done by the restating prior years undistributed profit/loss opening balance.

Material significant effects and correction of fundamental errors are corrected retroactively with the adoption of the comparative data disclosed in the financial statements, if it is practically impossible (than the changes in accounting policy is applied prospect). All corrections arising are disclosed as a correction in the figure of opening balance's undistributed profit item.

Pursuant to the newly adopted Policy on Amending and Ordinance on Accounting and Accounting Policies of companies within system Energoprojekt, that is applied to the financial statements for 2010, is defined as a material significant error that it is the individual amount or the cumulative amount with other errors higher than 1.5% of the total incurred Company's income originated from previous year.

## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

#### (z) Foreign exchange rates

Official exchange rates significant for the Company operating activities and translations of the figures stated in the balance sheet and income statement into RSD were as follows:

	<u>2010</u>	<u>2009</u>
EUR	105,4982 RSD	95,8888 RSD
USD	79,2802 RSD	66,7285 RSD
GBP	122,4161 RSD	107,2582 RSD
CHF	84,4458 RSD	64,4631 RSD
RUB	2,0865 RSD	2,0865 RSD
LYD	51,0847 RSD	51,0847 RSD

#### 6. FINANCIAL RISK MANAGEMENT

##### 6.1 Financial risk factors

The System's activities expose it to variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk and liquidity risk. The System's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The companies within System uses derivate financial instruments to hedge certain risk exposures.

Risk management is carried out by a financial department under policies approved by the Board of Directors. The Financial department identifies, evaluates and hedges financial risks in close co-operation with the operating units.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivate financial instruments and non-derivate financial instruments, and the investment of excess liquidity.

##### a) Market risk

###### i) Foreign exchange risk

The System operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EUR and USD. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The System in accordance with local legalisations on the local markets on which operates, applying the financial hedging tries to minimise foreign exchange risk.

###### ii) Fair value risk

The System has in its portfolio securities available for sale recognised by the fair value. Considering the fact that the market on the stock exchange is uncertain there is a possibility for fair value risk appearance.

## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

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#### *iii) Interest rate risk*

The System borrows assets on the financial market by the changeable interest rates, connected with Euribor, Belibor and reference interest rate issued by the NBS on the rep transactions. In the aim to avoid/limit risk arose the System borrows the money on the short term period, insisting on the lower bank's charge with the obligatory clause on pre-term payment return without any additional penalties.

#### **b) Credit risk**

The System has no significant concentration of credit risk. The System has policy that limit the amount of credit exposure to any financial institution.

#### **c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through and adequate amount of committed credit facilities and the ability to close out market positions, due to the dynamic nature of the business. The System aims to maintain flexibility in funding by collecting their funds from buyers and investments of available funds. Beside aforementioned, in accordance with System policy, the System makes "Back to Back" Agreements with the business partners whereby the possible risk connected to a possible payment late is transferred/shared between contractual parties.

## **7. SEGMENT INFORMATION**

### **7.1 Primary reporting formats – business segment**

The System is organized, local and abroad, on the following business segment as of 31 December 2009:

- 1) Projecting and researching;
- 2) Construction and equipping; and
- 3) Other

# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

(All amounts are expressed in RSD thousand, unless otherwise stated)

### Reportable segments

### Business segments

	Projecting and researching		Construction and equipping		Other		Total		Eliminated		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Income	3,968,159	4,140,197	14,305,726	17,474,093	7,321,797	1,837,194	25,597,676	23,451,484	(1,399,498)	(3,443,535)	24,198,178	20,007,949
Segment result	-	-	-	-	-	-	-	-	-	-	-	-
Indistributed expenses												
Operating profit	111,811	202,901	3,908,348	3,169,671	-	-	3,908,348	3,169,671	-	-	3,908,348	3,169,671
Income from interest	70,598	24,018	263,020	65,662	796,781	519,371	999,841	1,117,691	(6,977)	(14,317)	592,864	1,103,374
Expenses from interest	28,079	1,615	260,911	252,534	53,261	33,402	315,979	323,082	(1,104)	(45)	384,875	123,037
Income tax	4,562	19,198	42,045	26,231	26,847	24,536	315,897	288,734	(11,822)	(3,544)	304,075	285,190
Profit from ordinary activities	357,729	302,307	273,067	501,528	98,041	47,085	145,048	92,534	-	-	145,048	92,534
Loss from discontinued operations	-	(64)	-	-	785,882	601,777	1,416,678	1,405,592	(521,834)	(241,025)	894,844	1,164,567
Net profit	352,926	281,909	273,064	475,382	(2,379)	551,951	(2,084)	(379)	-	-	(2,884)	(379)
Total assets -	5,651,037	4,366,729	17,039,041	13,000,900	16,582,038	16,582,038	16,003,476	16,003,476	(8,818,885)	(8,818,885)	25,333,133	26,010,782
Total liabilities	5,651,037	4,366,729	17,039,041	13,000,900	16,582,038	16,582,038	16,003,476	16,003,476	(8,818,885)	(8,818,885)	25,333,133	26,010,782
Depreciation	66,497	62,121	536,711	476,510	86,703	83,753	689,911	622,384	-	-	689,911	622,384
Non cash expenses without depreciation	17,824	1,047	-	27,937	61,726	24,694	79,550	51,678	-	-	79,550	51,678

This is an English translation of the Independent Auditors' Report  
on the Financial Statements originally issued in the Serbian language

SYSTEM ENERGOPROJEKT BELGRADE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended 31 December 2010

(All amounts are expressed in RSD thousand, unless otherwise stated)

Geographical segments

	Serbia		ZND		Europe		Africa		Asia		America		Other		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Sales	10,786,209	6,154,983	3,279,810	6,629,818	529,511	36,131	4,609,180	3,364,433	2,900,528	2,329,773	2,092,940	1,092,345	75,466		24,198,178	2
Merchandise sold	82,338	100,559		37,576	107,149		19,267	107,076	897	2,913	7,488	1,597			217,159	
Goods sold and service rendered	10,703,851	6,054,424	3,279,810	6,592,242	422,362	361,131	4,589,913	3,257,357	2,899,631	2,326,860	2,085,452	1,090,748	75,466		23,981,019	1
Total Assets - consolidated															25,333,133	2

This is an English translation of the Independent Auditors' Report on the Financial Statements originally issued in the Serbian language

# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

(All amounts are expressed in RSD thousand, unless otherwise stated)

### 8. SALES

Revenues from merchandise, goods sold and services rendered the local market amounted RSD 10,786,209 thousand (2009: RSD 6,154,983 thousand) and on foreign RSD 13,411,969 thousand (2009: RSD 13,852,966 thousand) and the total amounted RSD 24,198,178 thousand (2009: RSD 20,007,949 thousand).

### 9. INCREASE/(DECREASE) IN INVENTORIES

	2010	2009
Increase in inventories	693,282	2,440,586
Decrease in inventories	(4,884,400)	(1,110,706)
<b>Total</b>	<b>(4,191,118)</b>	<b>1,329,880</b>

Increase in inventories relates to increase in work in progress and finished goods as follows:

- EP Holding a.d. - Block 26 New Belgrade in the amount of RSD 182,601 thousand,
- EP Visokogradnja - Blocks 24 and 22 Bežanijska Kosa, Railway station Prokop, Residential and business building Šišet in Igalo, Hotel Aktau, Z-070 Villas Aktau, Z-071 Projecting of Syktyvkar, Z-074 Sarijagaš Winery, Z-075 Schlumberger, Z-077 Kazmotransflot, Z-076 residential complex Syktyvkar in the total amount of RSD 261,545 thousand,
- EP Niskogradnja - business of WUA Peru in the amount of RSD 140,738 thousand..

Decrease in inventories primarily relating to the completion of the implementation of the Sale Purchase Agreement building under construction Block 26, Bay I as of 31.03.2010 in the Energoprojekt Holding ad in the amount of RSD 4,685,990 thousand. In addition, decrease in finished goods of EP Visokogradnja in Block 29, B3 and B9 facilities and Bežanijska kosa, Block 12 and Block 23.

### 10. OTHER OPERATING INCOME

	2010	2009
Premiums, subventions, refunded amounts, compensation and refund tax	948	5,465
Revenue from conditional grants	838	
Rents	70,923	100,482
Memberships	4,067	-
Other	113,053	107,327
<b>Total</b>	<b>189,829</b>	<b>213,274</b>

# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

Other operating income mostly related to the company EP Niskogradnja in the amount of RSD 87,707 thousand (based on revenues from the sale of scrap metal in Uganda in the amount of RSD 68,902 thousand, while revenues from rentals RSD 7,016 thousand), EP Visokogradnja (income from rent in the amount of RSD 28,645 thousand, EP Garant in the amount of RSD 23,737 thousand (income from rent in the amount of RSD 13,288 thousand, revenues from participation in the compensation losses from the co-insurance in the country of thousands of RSD 4644, revenues from the contract of reinsurance and retrocession RSD 5,617 thousand, other income of non-life insurance RSD 188 thousand), Zecco in the amount of RSD 13,988 thousand (income from rent in RSD 12,504 thousand and other income RSD 1,484 thousand).

### 11. PURCHASE VALUE OF GOODS SOLD

	2010	2009
Wholesale	(203,512)	(188,840)
<b>Total</b>	<b>(203,512)</b>	<b>(188,840)</b>

Purchase value of goods sold-wholesale related to the purchase of equipment - computers in EP Energodata in the amount of RSD 37,293 thousand, procurement of goods for the implementation of engineering work in Banja Luka EP Industrija, Dairy in Laktasi in the amount of RSD 96,857 thousand and the purchase of the granules in the EP Industrija in the amount of RSD 34,926 thousand.

### 12. MATERIAL COST

	2010	2009
Raw material	(4,267,805)	(4,311,773)
Other material cost (Overheads)	(263,641)	(256,407)
Fuel and energy	(766,336)	(670,544)
<b>Total</b>	<b>(5,297,782)</b>	<b>(5,238,724)</b>

Most of the costs of materials make up the cost of consumable materials, as follows: EP Oprema in the amount of RSD 1,955,299 thousand, EP Visokogradnja in the amount of RSD 1,079,386 thousand and EP Niskogradnja in the amount of RSD 946,554 thousand. The cost of fuel and energy has the highest participation EP Niskogradnja in the amount of RSD 576,230 thousand.

# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

(All amounts are expressed in RSD thousand, unless otherwise stated)

### 13. STAFF COSTS

	2010	2009
Costs of salaries and fringe benefits (gross)	(4,700,992)	(4,582,456)
Costs of taxes and contributions on salaries and fringe benefits charged to employer	(595,132)	(610,411)
Costs of remunerations according to temporary service contracts	(11,262)	(14,413)
Costs of remunerations according to author's contracts	(34,128)	(59,071)
Costs of remunerations according to temporary and provisional contracts	(72,624)	(33,475)
Costs of remunerations to individuals according to other contracts	(6,405)	(28,040)
Costs of remuneration to members of Management Board and Supervisory Board	(41,364)	(38,874)
Other personal expenses remunerations	(536,089)	(474,716)
<b>Total</b>	<b>(5,997,996)</b>	<b>(5,841,456)</b>

### 14. DEPRECIATION AND PROVISION COSTS

Depreciation and provision costs amounted RSD 802,299 thousand (2009: RSD 1,102,740 thousand) and relate to the:

- depreciation of property, plant and equipment is done in accordance with Note 5(I), amounted RSD 689,911 thousand (2009: RSD 622,384 thousand);
- provision costs in the amount of RSD 112,388 thousand (2009: RSD 480,356 thousand).

Position costs for long-term provisions mainly related to the EP Garant in the amount of RSD 77,430 thousand and relate to the provision for damages and other non-life insurance provisions. Provisions for compensation and other employee benefits (based on IAS 19) amounts to RSD 34,958 thousand



# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

(All amounts are expressed in RSD thousand, unless otherwise stated)

### 15. OTHER OPERATING EXPENSES

<u>Costs of production services</u>	2010	2009
Service costs of outputs	(3,757,380)	(4,992,148)
Transportation costs	(413,949)	(356,458)
Maintenance costs	(201,924)	(254,490)
Rental costs	(549,338)	(435,255)
Fairs exhibit costs	(1,653)	(1,444)
Advertising costs	(17,484)	(14,831)
Costs of researching activities	(821)	(1,747)
Costs of other services	(275,199)	(218,990)
<b>Subtotal</b>	<b>(5,217,748)</b>	<b>(6,275,363)</b>
<u>Non-production costs</u>		
Costs of non-production services	(1,072,649)	(593,000)
Expense accounts	(61,581)	(64,484)
Insurance premium costs	(102,059)	(82,063)
Payment operation costs	(218,471)	(179,229)
Membership fees	(14,971)	(13,026)
Tax duties	(508,378)	(614,285)
Contribution costs	(2,330)	(442)
Other	(141,838)	(291,075)
<b>Subtotal</b>	<b>(2,122,277)</b>	<b>(1,837,604)</b>
<b>Total</b>	<b>(7,340,025)</b>	<b>(8,112,967)</b>

Under the item other operating expenses the most significant part relate to the Service costs of outputs (subcontractors and cooperants) with EP Oprema in the amount of RSD 1,288,105 thousand, EP Niskogradnja in the amount of RSD 1,104,134 thousand and EP Visokogradnja in the amount of RSD 1,101,202 thousand. The remaining amount relate to the other companies within System.

Under the item Costs of non-production services most of the expenses related to non-production costs and tax duties. Largest single cost of non-production services related to the EP Entel in the amount of RSD 705,502 thousand (cost of consultancy services), EP Visokogradnja in the amount of RSD 117,193 thousand and EP Niskogradnja in the amount of RSD 84,357 thousand. In the position of tax expense as a result of calculation and payment of tax by local regulations, most of the refers to the EP Visokogradnja for the project TRC Kazakhstan and Z-066 Paper factory Siktivkar and EP Niskogradnja for WUA in Peru.

# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

(All amounts are expressed in RSD thousand, unless otherwise stated)

### 16. FINANCIAL REVENUES AND EXPENSES

<u>Financial revenues</u>	2010	2009
Financial income incurred with other associated companies	57,558	29,709
Income from interest	384,875	123,037
FX Gains	2,110,451	1,550,809
Gains on foreign currency clause	27,228	
Income from participation in the profits of subsidiary companies and joint ventures	39,092	
Other financial income	51,083	109,765
<b>Total</b>	<b>2,670,287</b>	<b>1,813,320</b>
<u>Financial expenses</u>		
Financial expenses incurred with other associated companies	(7,519)	(17,373)
Costs of interest	(304,075)	(285,190)
FX losses	(1,932,427)	(1,794,379)
Loss on foreign currency clause	(93,435)	
Other	(8,896)	(40,235)
<b>Total</b>	<b>(2,346,352)</b>	<b>(2,137,177)</b>

Net positive financial result was primarily originated from exchange rate gains resulting from the depreciation of the dinar in 2010, as the dinar depreciated against EUR 10.02% and against USD 18.81%.

The EP Visokogradnja in 2010 filed the income from interest from works performed in the Ministry of Foreign Affairs and in accordance with executive court decision in the amount of RSD 239,203 thousand. Interest expenses are interests paid on loans and penalty interest.

# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

(All amounts are expressed in RSD thousand, unless otherwise stated)

### 17. OTHER REVENUES AND EXPENSES

#### Other revenues

	2010	2009
Gains on disposals of intangible assets and property, plant and equipment	45,653	22,106
Gains on disposals of investments and long-term securities	4,744	351
Material sold	175	146,631
Surpluses	588	481
Collected written-off receivables	80,867	9,471
Gains on positive hedging	1,836	
Income from reduction of liabilities	93,584	124,800
Income from abolishing of long-term provisions	17,631	
Other	52,384	241,770
Income from valuation adjustments of property, plant and equipment	4,855	67
Income from valuation adjustments long-term financial investments and securities	359,996	26,636
Income from valuation adjustments of receivables and short term financial investments	213	546,309
Income from valuation adjustments of other property		6,077
<b>Total</b>	<b>662,526</b>	<b>1,124,699</b>

#### Other expenses

Losses on writing-offs and disposals of intangible assets, property, plant and equipment	(26,182)	(13,101)
Loss on sale of biological assets	(87)	
Losses on disposals of equity investments and securities	(2,284)	(33)
Losses on disposals of raw material	(2,517)	(995)
Shortages	(4,869)	(3,452)
Writing-offs of receivables	(54,818)	(34,845)
Disposals of inventory of material and merchandise	(75)	
Other	(455,053)	(283,643)
Impairment of property, plant and equipment		(12,818)
Impairment of long-term investments and other securities available for sale	(51)	(787)
Impairment of receivables and short-term financial investments	(138,545)	(389,765)
Impairment of other property		(210)
<b>Total</b>	<b>(684,481)</b>	<b>(739,649)</b>

# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

Under the item from valuation adjustments long-term financial investments and securities available for sale mostly relate to the EP Visokogradnja - Gains on the valuation adjustments of long-term financial investments based on loans for works at the railway station Prokop in the amount of RSD 266,011 thousand, according to the obtained execution court decision. Was carried out and adjustment of receivables in accordance with the obtained execution court decision for claims payments on the Ministry of Foreign Affairs in the amount of RSD 18,722 thousand and valuation adjustments on the basis of signed and collected the Protocol for works on the Z-0189 Kirishi (paid off on 03 February 2011) that was in previous years written off in the amount of RSD 58,256 thousand. EP Garant has income from value adjustments of securities and bonds of old foreign currency savings in the amount of RSD 11,887 thousand. Income from reduction of liabilities mainly relate to the EP Visokogradnja in the amount of RSD 88,288 thousand - was carried out increase in incomes based on write-off of liabilities to companies from the former Yugoslav republics.

In the position of other expenses most refers to the EP Visokogradnja in the total amount of RSD 387,011 thousand, which were primarily incurred as a result of entering on the basis of lost court judgments for the Z-056 TRK Aktau where it was expressed duty to the company Comers Consulting LTD in the amount of RSD 372,989 thousand. EP Energodata made the write-off of obsolete stock and materials in the amount of RSD 17,544 thousand.

The largest part of the figure of direct write-offs of receivables related to the EP Energodata and the result of booking off of certain items, such as: write-off of investments RSD 3,700 thousand, write off of advances paid approximately RSD 10,400 thousand, write-offs of uncollectible and obsolete receivables approximately RSD 16,200 thousand.

### 18. NET PROFIT/(LOSS) OF DISCONTINUED OPERATIONS

	2009	2009
Net loss of discontinued operations	(2,884)	(379)

### 19. EARNING PER SHARE

Basic earnings per share is calculated by adding profit to the shareholders dividing profit attributable to ordinary shares by the weighted average number of ordinary shares during the year which the System or companies within System purchased and held as the own shares.

	2010	2009
Profit added to the shareholders of the System/ companies within System	748,757	1,068,938
Weighted average number of ordinary shares in the share issue	9,474,979	9,269,122
Basic earning per share (RSD per share)	79.02	112.82

# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

(All amounts are expressed in RSD thousand, unless otherwise stated)

### 20. PROPERTY, PLANT AND EQUIPMENT

<u>Cost or valuation</u>	<u>Land and building</u>	<u>Plant and equipment</u>	<u>Investment property</u>	<u>Other</u>	<u>Equipment under construction and advances</u>	<u>Total</u>
Opening balance	5,172,641	6,874,280	191,588	20,320	384,104	12,642,933
Additions	12,871	653,287			135,259	801,417
Increase by transfer from investment under construction	78,220	10,861				
Disposals	(287,608)	(338,200)		(42)	-89,081	0
Transfers	(114,314)	18,019	108,952	(12,657)	(171)	(626,021)
Revaluation - appraisal	(56,652)	996	4,854			0
Increases/decreases in advances					(32,426)	(83,228)
Exchange differences	150,853	186,727			(163)	(163)
Other increases/decreases	28,258	25,094	169,712	22	34,803	372,405
As of 31 December 2010	4,984,269	7,431,064	475,106	7,921	729,853	13,628,213
<u>Depreciation</u>						
Opening balance	1,898,660	4,547,129	2,401	1,428		6,449,618
Depreciation	88,934	594,818		156		683,908
Disposals	(207,809)	(191,025)		(41)		(398,875)
Transfers	(22,498)	920	21,578			0
Revaluation - appraisal		413				413
Exchange differences	3,619	69,794				73,413
Other increases/decreases	7,412	20,120	(316)	266		27,482
As of 31 December 2010	1,768,318	5,042,169	23,663	1,809	0	6,835,959
Net book value						
31.12.2010	3,215,951	2,388,895	451,443	6,112	729,853	6,792,254
Net book value						
31.12.2009	3,273,981	2,327,151	189,187	18,892	384,104	6,193,315

Net book value as of 31 December 2010 of intangible assets was RSD 90,806 thousand.

# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

(All amounts are expressed in RSD thousand, unless otherwise stated)

	2010	2009
<b>Total depreciation costs comprise of:</b>		
Depreciation of intangible assets	700,441	622,384
Depreciation of property and equipment	16,533	7,847
	683,908	614,537

### 21. EQUITY INVESTMENTS

Equity investments represent long term investments in shares and parts of enterprises, banks and insurance companies.

- equity investments are stated applying the purchase cost when investor states its investment by purchase cost, and recognized revenues only in amount received from distribution of undistributed net profit of investment user incurred in day after investor obtained it. Part from distribution receive in the amount higher than this profit is recognized as increase in investments and stated as decrease in purchase cost of its.
- Applying the equity investment method, when those are stated by their purchase cost initially and stated amount is restated for result (profit or loss) obtained. Beside this correction is done for changes in capital investment user which are not occurred from the result. These changes arose from revaluation of property, plant, equipment and investments, from exchange difference and business combinations. Corrections are performed proportionally with investor equity investment of investment user.

Equity investments relate to the shares (stakes) with:

	2010	2009
a) Bank and financial organization	133,057	141,816
b) Other legal entities:	510,367	637,050
-Energopet	291,308	284,031
-Enjub		151,255
-Energobroker	4,371	15,985
-Energonigeria	199,872	158,038
-Other	14,816	27,741
<b>Total</b>	<b>643,424</b>	<b>778,866</b>

Decrease in equity with other entities principally represents a change in accounting treatment of two entities compared to the previous year - Enjub, which was from 2010 treated by proportionate method rather than equity method and Energobroker where the equity participation is below 20%, and is included at nominal value rather than equity method.

# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

(All amounts are expressed in RSD thousand, unless otherwise stated)

### 22. OTHER LONG TERM FINANCIAL INVESTMENTS

	2010	2009
a) Given long term loans		
- local	266,010	
- abroad	194,255	163,500
<b>Total</b>	<b>460,265</b>	<b>163,500</b>
b) Bonds of foreign currency saving	90,000	56,990
c) Housing loans given to employees	58,616	60,035
d) Other	737,314	627,059
<b>Total</b>	<b>1,346,195</b>	<b>907,584</b>

Increase in long-term loans granted in the country of RSD 266,010 thousand mostly relating to the EP Visokogradnja based on registering an enforceable court decision in respect of loans, given to the company to build a railway junction Prokop. The item other relating to to guarantee deposits in EP Entel in the amount of RSD 576,961 thousand, give bonds for a guarantee of EP Industrija in the amount of RSD 66,796 thousand, and the amount of RSD 93,557 thousand relates to the EP Visokogradnja.

### 23. INVENTORIES

	2010	2009
Raw material, spare parts and tools	1,122,018	773,892
Work in progress	1,209,540	5,409,328
Finished goods	382,337	447,627
Merchandise	436,736	25,537
Paid advances	993,867	420,798
<b>Total</b>	<b>4,144,498</b>	<b>7,077,182</b>

Growth of advance payments item is recorded by the EP Oprema based on consortium contract for the facility TE Kostolac, while the increase in raw materials, spare parts, tools and inventory mostly relating to the EP Niskogradnja for intensifying activities abroad.

Fall in work in progress is the result of the completion of Block 26, whose participation at the balance sheet date in 2009 was RSD 4,503,390 thousand. In the position of goods was expressed as RSD 237,060 thousand goods in stock at EP Oprema in Nigeria, while the RSD 190,990 thousand, presented in the account - goods in transit with the EP Niskogradnja, mainly related to equipment purchased and sent to Uganda, which at the balance sheet date was not crossed border crossing that country.

# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

(All amounts are expressed in RSD thousand, unless otherwise stated)

### 24. RECEIVABLES

<u>Receivables from sales</u>	2010	2009
Trade receivables - domestic	2,479,306	1,921,357
Trade receivables - foreign	3,734,718	3,058,827
<b>Subtotal</b>	<b>6,214,024</b>	<b>4,980,184</b>
<u>Receivables from specific business operations</u>		
<u>Other receivables</u>	26,297	136,626
Receivables from employees	48,741	19,443
Receivables from state institutions		2,897
Receivables for other taxes and contributions overpaid	3,902	143,058
Other	260,542	88,438
<b>Subtotal</b>	<b>313,185</b>	<b>253,836</b>
<b>Total</b>	<b>6,553,506</b>	<b>5,370,646</b>

Increase in domestic trade receivables refer to the EP Visokogradnja, while as a result of increased business activities abroad, there was an increase in Trade receivables - foreign, particularly in EP EP Niskogradnja and EP Industrija.

Receivables from overpaid taxes and other contributions mostly related to receivables for overpaid income tax by WUA of EP Niskogradnja.

### 25. SHORT TERM FINANCIAL INVESTMENTS

	2010	2009
Short fixed term deposits	1,862,108	1,123,039
Given short term loans	65,021	19,266
Other	60,040	42,786
<b>Total</b>	<b>1,987,169</b>	<b>1,185,091</b>

The Short fixed term deposits with domestic banks refer to the EP Garant in the amount of RSD 642,434 thousand, EP Entel in the amount of RSD 1,017,795 thousand, EP Hidroinženjering in the amount of RSD 33,805 thousand, EP Holding RSD 59,345 thousand and EP Visokogradnja RSD 108,729 thousand.

Given short-term loans in RSD 64,020 thousand is a loan issued by the EP Holding to the Enjub at 50% of the amount in accordance with inclusion in this company by the proportional method of consolidation reports System Energoprojekt (Note connections 21 Equity investments).



# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

(All amounts are expressed in RSD thousand, unless otherwise stated)

### 26. CASH AND CASH EQUIVALENTS

<u>In RSD:</u>	2010	2009
Current accounts	61,543	91,260
Petty cash	552	760
Other	83,113	29,600
<b>Subtotal</b>	<b>145,208</b>	<b>121,620</b>
<u>In foreign currency:</u>		
Foreign currency accounts	1,736,990	2,330,390
Petty cash	106,321	95,369
L/C	37,178	177,931
Other	850,394	243,931
Blocked bank accounts	987	253
<b>Subtotal</b>	<b>2,731,870</b>	<b>2,847,874</b>
<b>Total</b>	<b>2,877,078</b>	<b>2,969,494</b>

Under the item foreign currency account dominated participated EP Visokogradnja, EP Holding, EP Niskogradnja and EP Entel.

### 27. VAT AND PREPAYMENTS AND ACCRUED INCOME

	2010	2009
<u>VAT - deferred</u>	46,836	270,349
<b>Prepayments and accrued income</b>		
Prepaid costs	230,259	203,343
Accrued income (uninvoiced income)	268,076	869,486
Deferred portion of FX losses		46,053
Deferred expenses from liabilities	410	
Other	233,559	22,992
<b>Subtotal</b>	<b>732,304</b>	<b>1,141,874</b>
<b>Total</b>	<b>779,140</b>	<b>1,412,223</b>

The fall of this item is mainly caused by the completion of construction of Block 26 in connection with the collection of accrued income.

# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

(All amounts are expressed in RSD thousand, unless otherwise stated)

### 28. ISSUED AND OTHER CAPITAL

Issued capital comprises the following:

	%	2010	2009
Share capital		4,467,699	3,982,995
Other capital		98,657	83,322
<b>Total</b>		<b>4,566,356</b>	<b>4,066,317</b>

The Assembly of the Shareholders Energoprojekt Holding a.d. made on XXXV session, hold on 02 September 2010, decision on issuing ordinary shares of VIII share issues without public offer in order to convert retained earnings to the equity and the replacement of the shares to increase their nominal value, from 400 dinars to 440 dinars, after which implementation the EP Holding has a total of 9,467,810 ordinary shares.

#### SYSTEM „ENERGOPROJEKT“

(number of shares)

Holding 9,467,810

Minority shareholders in: Energodata 13,930

:" Visokogradnja 229,672

" Niskogradnja 99,724

" Oprema 112,939

" Hidroinž. 35,151

" Entel 58,042

" Urb. + Arh. 3,766

" Industrija 73,455

" Garant 11,100

Total: 10,105,589

40% of issued capital of the company Energoplast d.o.o. belongs to the foreign company CHARTERED OIL AND GAS LTD (minority interests).

## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

Nominal value of shares from companies within System Energoprojekt:

- Energoprojekt Holding a.d. – 440 RSD per share.
- Energoprojekt Garant a.d.o. 3,980 RSD per share.
- Energoprojekt Urbanizam i arhitektura a.d. - 610 RSD per share.
- Energoprojekt Energodata a.d. – 400 RSD per share
- All other subsidiaries - 410 RSD per share.

The total non-consolidated number of shares is 16,245,566.

On 31.12.2009 the total number of repurchased own shares EP Holding was 9,796 of own shares, the total nominal value of RSD 3,918 thousand. The Company sold in 2010 9,020 of its own shares. According to the decision made on XXXV Assembly Session, it rose by a nominal value of shares from RSD 400.00 at RSD 440.00, so as of 31 December 2010 the total number of repurchased own shares of the Company amounted to 776, with a total nominal value of RSD 341 thousand.

#### 29. RESERVES

Reserves comprise:

	2010	2009
Legal	248,538	187,426
Statutory and other	93,287	112,346
Issuing premium	236,606	232,560
<b>Total</b>	<b>578,431</b>	<b>532,332</b>

Issuing premium represents positive difference between obtained selling price per share and their nominal value.

The legal reserves are required by the Law on companies in force up to 30 November 2004 after word the Law on legal entities become in force and built up by appropriation of 5% of each year profit until a minimum amount reaches 10% of issued capital.

Statutory and other reserves are reserves formed from profit in accordance with Company's acts.

Increase in reserves in 2010 originated from distribution of profit companies within System based on decisions made by their Assemblies.

# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

### 30. REVALUATION RESERVES, UNREALISED GAINS AND LOSSES FROM SECURITIES

	2010	2009
Revaluation reserves	958,158	869,133
Unrealised gains on AFS securities	60,049	67,646
Unrealised losses on AFS securities	(19,865)	(17,626)
<b>Total</b>	<b>998,342</b>	<b>919,153</b>

Revaluation reserves comprise revaluation surpluses of movements in fair value of property and equipment (determined by appraisal in accordance with IAS 16 and equity investments) and amounted RSD 770,459 thousand, while the reserve on translation of financial statements presented in the other functional currency, disclosed currency refers RSD 187,699 thousand.

Fall of share prices on the Belgrade Stock Exchange of companies whose shares are in portfolio securities available for sale in companies within System Energoprojekt, the largest part of the effect on the decrease in unrealised gains on AFS securities and increase in Unrealised losses on AFS securities.

### 31. UNDISTRIBUTED PROFIT AND LOSS

Undistributed profit relates to:

	2010	2009
Consolidated net prior years profit	3,728,305	2,950,639
Changes during the period	330,496	777,666
<b>Consolidated net profit as of 31 December</b>	<b>4,058,801</b>	<b>3,728,305</b>

Changes during the year are result of, first of all obtained profit in 2010 reduced for distributed profit in 2009.

Distribution of EP Holding a.d. profit as of 31 December 2009 was done in accordance with Shareholders Assembly's decision made on XXXV session under the point 5 and 6 of the agenda hold on 02 September 2010.

The Assembly of the EP Holding made a decision that the total amount of net current profit distribute to 5% reserve of the Company and to the undistributed profit in the amount of RSD 445,392 thousand.

The same decision, retained earnings from previous years and profit from 2009 was assigned to the increase in share capital by issuing ordinary shares of VIII of the issue without a public offering (Note no. 28).

# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

### 32. LONG TERM PROVISION

Provision is recognized as liabilities when:

- an enterprise has a present obligation (legal or constructive) as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Long term provision comprises:

	2010	2009
Provision for expenses in warranty	393,161	430,035
Provision for employee benefits	182,621	167,635
Other	291,598	334,680
<b>Total</b>	<b>867,380</b>	<b>932,350</b>

### 33. LONG TERM LOANS

Liabilities from long term loans which due in a period longer than one year from the performance date, or balance sheet date relate to the following:

	Currency	Interest rate	2010	2009
<u>Domestic:</u>				
"Astra Banka", Beograd	RSD		40,140	40,140
Societe Generale banka			237,162	355,863
Alpha bank			16,658	
Pariski klub poverilaca			240,554	
Pravna lica i ostali	USD, EUR	7,5-10,5	852	
<b>Subtotal</b>			<b>535,366</b>	<b>396,003</b>
<u>Abroad:</u>				
-Iraq:	USD			
Other	USD, EUR		1,076,031	1,199,546
<b>Subtotal</b>			<b>1,076,031</b>	<b>1,199,546</b>
<b>Total</b>			<b>1,611,397</b>	<b>1,595,549</b>

Under item long term loans the most significant amounts relate to the EP Niskogradnja (RSD 874,163 thousand), and EP Energodata (RSD 358,961 thousand) and EP Visokogradnja (RSD 120,663 thousand).

# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2010

(All amounts are expressed in RSD thousand, unless otherwise stated)

The position of long-term loan at Societe Generale bank refers to the EP Visokogradnja for the purchase of equipment in the amount of RSD 80,523 thousand and EP Niskogradnja in the amount of RSD 156,639 thousand.

Long-term loan stated with EP Holding in the amount of RSD 240,554 thousand obtained from the Development Fund of the Republic of Serbia in 2010 for working capital in order to overcome short-term liquidity of subsidiaries in the country.

The position of other long-term loans abroad are mostly related to the EP Energodata - long-term loans at Alpha Bank London to settle the obligation for ATM in the amount of RSD 358,961 thousand and EP Niskogradnja - long-term loans for the purchase of fixed assets (WUA) in an amount of RSD 68,989 thousand, long-term liabilities Z-0163 Navigation Lock in the amount of RSD 488,829 thousand and liability to the former republics of Yugoslavia in the amount of RSD 159,252 thousand.

### 34. OTHER LONG TERM LIABILITIES

	2010	2009
Lease liabilities – long term	16,837	53,812
Other	410,880	86,701
<b>Total</b>	<b>427,717</b>	<b>140,513</b>

Increase in Other non-current liabilities relate to the EP Industrija on the basis of long-term loans from investor Imlek Beograd in RSD 368,016 thousand. Accordingly, the same project, the EP industry ad has in assets approximately the same amount of the receivable from Dairies Banja Luka on the basis of the work done.

### 35. SHORT TERM FINANCIAL LIABILITIES

	Currency	2010	2009
<u>Short term RSD loans:</u>			
Domestic banks		702,403	975,396
Short term foreign currency loans			
Domestic banks	EUR, USD	1,448,561	652,349
<b>Subtotal</b>		<b>2,150,964</b>	<b>1,627,745</b>
Other short term financial liabilities and current portion of long term loans		517,959	446,141
Short term loans abroad	EUR, USD	507,659	175,646
Banks and legal entities			
<b>Total</b>		<b>3,176,582</b>	<b>2,249,532</b>

# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

(All amounts are expressed in RSD thousand, unless otherwise stated)

Short term dinars loans and loans with the foreign currency clause with local banks related to the company EP Visokogradnja in the amount of RSD 846,181 thousand, EP Niskogradnja in the amount of RSD 484,855 thousand and RSD 665,810 thousand from foreign currency obligations to Paris Club of creditors.

Energoplast and EP Urbanizam i arhitektura disclosed liabilities for dinar loans in the amount of RSD 50,000 thousand and RSD 49,265 thousand.

Other current liabilities and current portion of long-term loans and finance lease related to the EP Visokogradnja in RSD 194,705 thousand, EP Niskogradnja in RSD 126,534 thousand, EP Energodata in RSD 88,138 thousand, EP Holding 83,726 thousand USD. Liabilities for short-term loans abroad relate to WUA EP Niskogradnja in RSD 504,236 thousand and partially cover liabilities from financial leasing for the purchase of equipment in Peru.

### 36. LIABILITIES FROM BUSINESS OPERATIONS

	2010	2009
Received advances, short-term deposits and caution money	3,357,808	7,095,100
Trade payables - domestic	849,953	703,202
Trade payables - foreign	2,117,859	1,566,135
Other liabilities from business operations	104,061	48,602
<b>Subtotal</b>	<b>6,429,681</b>	<b>9,413,039</b>
<b>Liabilities from specific operations</b>	<b>281,880</b>	<b>230,505</b>
<b>Total</b>	<b>6,711,561</b>	<b>9,643,544</b>

Reduction of liabilities for advances is primarily a result of completion of construction of Block 26 and the closure of the received advance payment of RSD 5,093,608 thousand as of 01 January 2010, while increase in liability for advances relate to EP Oprema in RSD 852,813 thousand, of which RSD 809,175 thousand refers to the unit TE Kostolac and EP Niskogradnja in RSD 230,722 thousand

Increase in Trade payables - foreign relate to the EP Visokogradnja.

The figure Trade payables - foreign refers to the EP Oprema in RSD 505,314 thousand, EP Niskogradnja in RSD 428,335 thousand, EP Visokogradnja in RSD 662,007 thousand and EP Entel in RSD 410,979 thousand.

# SYSTEM ENERGOPROJEKT BELGRADE

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

### 37. OTHER SHORT TERM LIABILITIES

	2010	2009
Salaries and contributions	718,338	697,098
Dividends	22,579	46,261
Other liabilities	76,602	44,097
<b>Total</b>	<b>817,519</b>	<b>787,456</b>

### 38. VAT DUTIES, OTHER PUBLIC LIABILITIES AND ACCRUALS AND DEFERRED INCOME

	2010	2009
VAT and other public liabilities	412,034	498,889
Accruals and deferred income	1,082,312	817,885
<b>Total</b>	<b>1,494,346</b>	<b>1,316,774</b>

Under the item Accruals and deferred income has a dominant participation EP Entel in the amount of RSD 577,907 thousand in the name of the retention money (which is a maturity shorter than one year), EP Garant in the amount of RSD 266,896 thousand for unearned premiums, damage allowances and uninvoiced expenses. In EP Oprema accruals amount to RSD 84,482 thousand, while the EP Niskogradnja amounts to RSD 55,049 thousand.

### 39. COMMITMENT AND CONTINGENCIES

There are a few legal litigations filed against legal entities within System Energoprojekt from which the most significant related to GP Rad in bankruptcy. These litigations relate to the several legal entities within System Energoprojekt as adherents of the company RO Izgradnja.

The final outcome of these legal proceedings is uncertain. The Management, based on professional department opinion, believes that no material damages will be experienced by the System Energoprojekt Beograd, and hence has not booked a provision for the potential losses that might reasonably arise from the aforementioned litigations.

The list of most significant litigations is enclosed.



## SYSTEM ENERGOPROJEKT BELGRADE

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended 31 December 2010

*(All amounts are expressed in RSD thousand, unless otherwise stated)*

#### 40. OFF BALANCE SHEET ITEMS

Off balance sheet items System in the amount of RSD 8,006,030 thousand dominantly refers to the issued and received guarantees (advance, guarantee for good performance) and external collateral for taken loans.

Subsidiary company Energoprojekt Entel LLC Doha, Qatar has the right to dispose of the usufruct of immovable property, the total area 4.488 sqm, located on the cadastral parcels no. 65582, 65583, 65584, 65585, 65586, 65587, 65588, 65589 and 65590 area 10,736 sqm in Doha - Qatar, Zone 44, North Naija Al, Al Mumtaz Street Doha Qatar, which is in the register book owned by a local individual. Registered owner put a mortgage on property in the Doha Bank under contract number 52973 as a collateral in the name of bid guarantee and performance bond.

#### 41. POST BALANCE SHEET EVENTS

No material significant events happened after the balance sheet date.